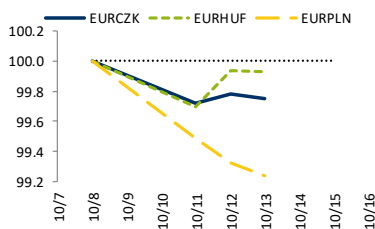




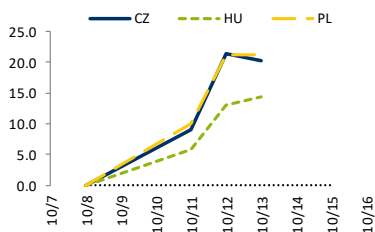
Wednesday, 13 October 2021

Forex markets (index)



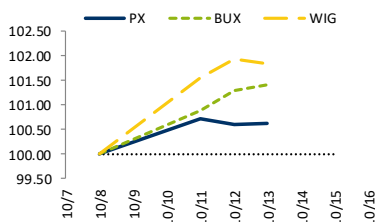
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.39	25.40	-0.03
EURHUF	360.4	360.5	-0.01
EURPLN	4.576	4.580	-0.08

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.284	2.296	-1.2
HUGB 10Y	3.66	3.64	0.4
PLGB 10Y	2.64	2.64	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1374.8	1374.7	0.01
BUX	54717	54648	0.13
WIG	74679	74737	-0.08

Our regional insights:

If anything - the outcome of the Czech elections can lower a risk premium on Czech assets

Traditionally, the results of elections in the Czech Republic do not have any significant impact on markets. Contrary to neighbouring Poland and Hungary, the Czech Republic is associated with a lower level of political risks and elections usually do not bring any “revolutionary” changes with irreversible impacts on the constitution or key institutions. So, as expected, the immediate response of markets to the election results was lacklustre, although from a medium-term perspective, the new composition of the Czech Parliament may have a positive effect for Czech financial assets.

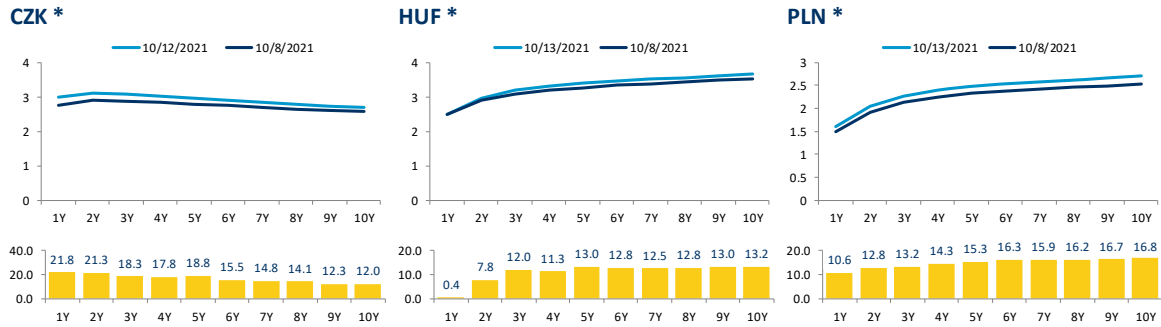
The first medium-term plus for the Czech koruna and other Czech assets is the fact that the elections confirmed the westward orientation of the country. Both victorious coalitions (which are likely to take over power in some time) have clearly proclaimed their positive attitude to the European Union. On the contrary, the anti-European SPD fell short of pre-election polls, and for the first time in the history of the post-communist Czech Republic, the Communist Party did not even get into Parliament. Thus, at the time of the ongoing clash of Poland with the EU, the Czech Republic is sending a relatively clear signal that is likely to keep risk premiums on Czech assets significantly lower than the regional standard.

The second positive surprise for markets is that the lower chamber of the Czech Parliament will not be as fragmented as the pre-election polls suggested. It does not necessarily have to be as complicated to form a government as it seemed to be a few weeks ago.

Last but not least, the high priority for both winning coalitions that want to form a government (Spolu/Together, and Pirates & Mayors) is faster fiscal consolidation (than was proposed by the incumbent government). Pirates and Mayors want to get the budget deficit below 3% of GDP by the end of the electoral term, while the victorious coalition Spolu (Together) even want it below 1.5% of GDP. Theoretically, Czech government bonds may eventually respond well to this, although these assets are currently suffering due to accelerating inflation.

We add though that the victorious coalition Spolu (Together) links the goal of lower budget deficits with bets on rapid Czech economic growth (approximately 4% annually). Moreover it will be difficult to cut spending on the expenditure side of the budget while an agreement on higher taxes could be just as hard to reach. The first test of action readiness by the emerging coalition will come in new government budget negotiations for 2022, which were prepared by the incumbent government (without a political mandate). In this respect, it will be very interesting to see winning parties’ reaction to VW demands to re-activate anti-COVID subsidies for jobs for the struggling automotive industry.

Interest-rate Swap Curves



* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points (against previous Friday).

Calendar

Country	Date	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	10/13	12:00	CZ bond auction 2013-2028, 2.50%	CZK B					5			
CZ	10/13	12:00	CZ bond auction 2017-2033, 2.00%	CZK B					5			
CZ	10/13	12:00	CZ Bond auction 2006-2036, 4.20%	CZK B					3			
CZ	10/14	10:00	Current account	CZK B					-11.0		-19.5	
PL	10/14	14:00	Current account	EUR M					-825		-1827	
PL	10/14	14:00	Trade balance	EUR M					-450		-714	
PL	10/15	10:00	CPI	%	09/2021 *F						0.6	5.8
CZ	10/18	9:00	PPI	%	09/01/2021						1.2	9.3
PL	10/18	14:00	Core CPI	%	09/01/2021						0.2	3.9

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